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CENTRAL INTELLIGENCE AGENCY

INFORMATION REPORT

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THIS IS UNEVALUATED INFORMATION

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1. [redacted] I must point out that even if actual currency figures were available, they would not be of great value for analytic purposes because during the period between the end of World War II and the advent of the Communists, the Chinese dollar was steadily and rapidly depreciating, and it would be nearly impossible to convert amounts in Chinese dollars into any stable currency at a realistic exchange rate. A payment made in January would have to be converted at a different rate from one made in June or in December. Further because of the currency depreciation a violent inflation of domestic prices occurred. Thus payments for local products or for wages also increased steadily. What it comes to is that local currency amounts do not afford a reliable yard stick to measure values. Since the Communists took control in 1949, their currency theoretically has remained fairly stable but signs of an actual depreciation are appearing and suggest that the theoretical stability has been maintained largely by the prohibition of private foreign trade; official exchange quotations mean little or nothing if no one is permitted to buy or sell. For this reason I would hesitate to take present costs in Jen Min Piao (Communist currency) converted into US$ at the official rate as valid.

2. In general the rates charged consumers by the power and light companies in the smaller cities of China, or at least of the lower Yangtse valley, tended to be much the same in one city as in another. These rates were somewhat higher than the rates charged in Shanghai, which was a very much larger market especially for industrial consumption. The spread between Shanghai rates and the outport rates was gradually decreasing however. Because of the rapid depreciation of the currency, all of the companies were forced to apply constantly for rate increases, and such applications finally became routine every three months. Some of the companies were in better financial

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condition than others and did not really need the same rate increases but as a matter of policy they joined the weaker companies in the demands of the latter. The stronger companies then made some concessions to their own consumers without making formal rate changes.

3. The costs of the several companies expressed in percentages of gross revenue for wages, cost of administration, and depreciation did not vary greatly between one small company and another. For reasons which are explained below there was a great difference in the cost of fuel and lubricants between different companies and, as fuel and lubricants constituted the major operating cost, what profits or what losses a company made depended almost entirely on what it paid for fuel and lubricants.

4. [redacted]

5. The Yung Yao Company's consumption was divided roughly 35% domestic consumption, 55% industrial consumption and 10% municipal consumption (street lighting and municipal buildings). The industrial consumption was a higher percent in Ningpo than in most of the other small cities. In the latter, domestic and industrial consumption were probably about even. Large industrial consumers were granted discounts or were charged a sliding scale, the charges decreasing as the consumption rose. 25X1

6. All of the companies [redacted] operated on fuel oil. I have heard that the Yung Yao Co's plant has [redacted] been converted to coal but I cannot vouch for the fact. The Yung Yao Co, being in a good financial condition, made a practice of (a) contracting with one of the major US oil companies for all of its fuel and lubricant requirements for a year (or sometimes for two years) forward; (b) it then bought US$ forward to pay for the fuel and lubricants as delivered. By so doing it fixed the price of its fuel and lubricants in local currency at the exchange rate current at date of contracting. Because of the rapid depreciation of the Chinese dollar during 1946-49 this policy paid handsomely. In fact the company's profits were in reality exchange profits rather than operating profits. By this method the Yung Yao Co held its fuel and lubricant costs to approximately 70% of its gross revenue. The weaker companies which did not have the cash to settle exchange forward were forced to buy their fuel and lubricants month to month. The result, in many cases was that the cost of fuel and lubricants exceeded the total gross revenue, because while rate increases were granted, it took from three to six months to get the increases approved and put into effect. The revenue, therefore, was being collected on the basis of costs six months earlier, and the costs meanwhile had mounted with the change in exchange.

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7. Administrative costs and labor together required approximately 15% of the gross revenue.

8. Depreciation was at varying rates for buildings and for different classes of equipment. Depreciation rates were set by government authority and were the same for all companies. Depreciation required approximately 5% of the gross revenue.

9. Formal taxes were light. [redacted] the only formal tax collected was the business tax of 10% of the net profits paid by all commercial and industrial enterprises. However, in addition to formal 25X1

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taxes public utility companies were expected to contribute liberally to local welfare funds. Further while the authorities were supposed to pay for current supplied for municipal use, in fact they never did so. In the case of the Yung Yao Co, as already noted, municipal consumption amounted to about 10% of the total.

10. During the period 1946-49 many of the companies made no profits at all because of their inability to increase their tariffs sufficiently promptly to meet their mounting costs. Other companies, like the Yung Yao Co, which covered fuel and lubricant costs by forward exchange purchases, made satisfactory profits. Prior to the outbreak of the fighting with Japan [1937] the Yung Yao Co had paid dividends of as much as 20%. During the post-war pre-Communist period [1946-49] the Yung Yao Co as a matter of policy reduced its dividend payments to eight or ten percent and used the remaining profits to increase its capitalization. This was done in anticipation of the possible nationalization of public utilities. A physical valuation of the Yung Yao plant made in 1946 showed assets of between US$3 and $5 million as against a much smaller capitalisation, about US$500,000 if I remember correctly. In event of nationalisation, the government would probably propose to repay the capital investment to share holders rather than the physical value of the assets and it was, therefore, imperative to bring the capitalisation more nearly in line with the physical values.

11. I have no information on the Yung Yao Co's operations since the Communists came into control, but I have [redacted] heard a report that the company has paid a dividend. This seems extraordinary but may be correct.

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